

SECTOR ASSESSMENT (SUMMARY): Industry and Trade¹

1. This sector assessment summarizes the sanitary and phytosanitary (SPS) context and major issues, challenges, and their implications for developing agriculture, food, and forestry (AFF) trade and managing human, plant, and animal health in Cambodia and the Lao People's Democratic Republic (Lao PDR), including government strategies, lessons learned, and design considerations. The performance of SPS systems contributes to sector outcomes in relation to (i) agriculture and natural resources (i.e., the source of AFF products, as both exports and imports);² (ii) trade and industry (especially for a wide range of processed food products, and in tourism enterprises); and (iii) health (particularly in relation to the consequences of food safety management deficiencies).

A. Trade Performance, Sanitary and Phytosanitary Issues, and Implications

2. Trade in the Greater Mekong Subregion (GMS) is growing rapidly; trade in SPS-affected products even more so. With rising incomes across most GMS countries, total recorded exports of AFF products from GMS countries (for which SPS measures apply) reached \$9.27 billion in 2009. From 2000 to 2009, total GMS AFF exports increased more than fourfold, at an annual growth rate of over 10%. In 2009 some \$4.5 billion of AFF exports were Thai exports to other GMS countries, about \$2 billion were Viet Nam exports, and \$1.7 billion were from the People's Republic of China (PRC). AFF exports from the Lao PDR (\$333 million) and Cambodia (\$285 million) were smaller, but still substantial. Trade concentration (the total GMS-destined exports as a percentage of total exports in AFF) also increased from less than 7% in 2002 to nearly 14% in 2009.

3. **Sanitary and phytosanitary issues.** Some AFF products face more costly and complex SPS requirements than others; such high-sensitivity products include live animals, dairy, meat, fish, fresh fruit, and vegetables. SPS low-sensitivity products include grains, beverage crops, and most non-food products. Non-GMS countries increasingly apply World Trade Organization (WTO) principles in their import requirements.³ This means that (i) more stringent international standards are being adopted; (ii) importing countries require exporting countries to provide accurate data about their plant and animal health, and food safety situation (and accordingly base their decisions to grant market access on risk analysis, especially for new products); and (iii) more tests and inspections are carried out to ensure compliance. Such increasingly demanding SPS requirements can be difficult and relatively costly for countries with low capacities to meet.

4. The core SPS problem in Cambodia and the Lao PDR is poor implementation of SPS policies and practices. This is primarily due to weak capacities in monitoring and surveillance, an inadequate supply of SPS specialists, and poor harmonization and coordination with international standards and standards of GMS neighbors. A wide range of financial (e.g., lack of operational budgets); planning (e.g., no annual surveillance programs); physical (e.g., a lack of testing

¹ This material is summarized from the supplementary document (Detailed SPS Issues Sector Assessment) accessible from the list of linked documents in Appendix 2 of the Report and Recommendation of the President). The analysis focuses on technical aspects of SPS sectors. Economic implications of systems' performance, the rationale for supporting SPS capacity building, and the financial and economic costs and benefits associated with this are captured in the supplementary document (Economic Analysis).

² Nearly all AFF products have to meet SPS standards. The 1994 WTO SPS Agreement (through its multilateral framework) provides the principles for measures of health protection, which are designed to avoid unnecessary disruption of trade.

³ The Association of Southeast Asian Nations (ASEAN) and the GMS have adopted WTO principles as bases for harmonization and economic integration.

capacity); institutional (e.g., poor awareness); human resource (e.g., low skills levels); and knowledge and information conditions contribute to this situation.

5. The Standards and Trade Development Facility (under the WTO framework) and the Organisation for Economic Co-operation and Development (OECD) are attempting to develop macro indicators for SPS performance. This is a relatively new and emerging area, and the amount of information needed to develop suitable and robust indicators for cross-country comparison is considerable. Such difficulties should not impede the development of SPS investments designed to adopt pragmatic approaches to capacity building, to evaluate the quality of SPS systems, to design and implement science- and risk-based measures for surveillance and inspection, and to apply nondiscriminatory SPS measures for imports and domestic markets.

6. **Implications.** As a result of poor capacities in the GMS (the PRC and Thailand are relatively advanced, Viet Nam somewhat less so, and Cambodia, the Lao PDR, and Myanmar lag significantly behind), the current SPS situation is that (i) plant pests and diseases affect the productivity and incomes of farmers;⁴ (ii) a number of endemic livestock diseases⁵ impede formal trade, and reduce the income of farmers and producers;⁶ (iii) incidences of food-borne and waterborne diseases in Cambodia and the Lao PDR are higher than in other countries of Southeast Asia; and (iv) present inadequate SPS capacities unnecessarily inhibit AFF trade and cause high costs of doing business. Several SPS import requirements in the region effectively block market access, particularly PRC import requirements for rice and corn exports from Cambodia and the Lao PDR.

7. Health hazards are also costly to people and the economy. Inadequate health control measures lead to high risks for investors, particularly in the case of disease outbreaks. Blanket bans on products or high-cost requirements also diminish returns on investments. Consumers' health can be seriously impacted by adulterated, spoiled, contaminated, and substandard food products. Economic and financial costs occur in the forms of lost incomes attributable to illness, and payment for medical treatment. The disability-adjusted life year (DALY) rate⁷ (2004) presents especially alarming figures for Cambodia and the Lao PDR (Table 1).

Table 1: Food Safety Situation in Greater Mekong Subregion Countries, Japan, and the United States, 2004

Item	Cambodia	PRC	Lao PDR	Myanmar	Thailand	Viet Nam	Japan	US
DALY/100,000	2,843	277	1,442	1,553	449	315	28	33

DALY = disability-adjusted life year, Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China, US = United States.

Source: World Health Organization. 2004. *Global Burden of Diseases. Estimated DALYs per 100,000 population*. Geneva.

8. Many pests, diseases, and substandard foods spread easily across long porous borders in the GMS and pose major risks to human and animal health. Without cooperation among neighboring countries, individual GMS populations are exposed to collective risks.

⁴ With increased reliance on higher value crops and new varieties, and given the existence of larger-scale operations for exports, the risk is that trade will be disrupted by an increasing incidence of outbreaks. Forest plant health is not mainstreamed in the SPS compliance process—another significant source of risk.

⁵ Highly pathogenic avian influenza, foot-and-mouth disease, classical swine fever, and Newcastle's disease.

⁶ Several zoonotic diseases are also inherent risks for human health.

⁷ DALY indicates the number of healthy life years lost per 100,000 because of mortality and morbidity caused by diseases and debilitating factors. The DALY estimates are only for years lost because of diarrheal disease.

B. Government Strategy and Sanitary and Phytosanitary perspectives

9. The Government of Cambodia recognizes the urgent need to improve conditions surrounding AFF trade. In the Strategy for Agriculture and Water, 2010–2013, investments designed to upgrade SPS conditions are explicitly acknowledged as priorities with the potential to contribute to a larger share of products meeting international standards, and this is essential to facilitate export market diversification (beyond informal markets for low-quality products destined for Thailand and Viet Nam). The government has also chosen milled rice as a major priority for export, and SPS capacity is identified first among the issues constraining export facilitation. The recent National Strategic Development Plan Update identifies improving public health, particularly in relation to zoonotic diseases and food safety, as priority actions for the Ministry of Agriculture, Forestry and Fisheries and the Ministry of Health.

10. The Lao PDR became an ASEAN member in 1997, and has bilateral trade agreements on market access with the PRC and Viet Nam; it applied for WTO membership in 1997. In 2006, the government endorsed the SPS action plan, prepared as part of the Diagnostics Trade Integration Study,⁸ and is preparing the second study. While recent investments in physical infrastructure have transformed the Lao PDR from a landlocked to land-linked economy, persistent institutional and capacity constraints—including in SPS performance—prevent the full potential of Lao PDR AFF products from being realized. The Lao PDR is well placed to take advantage of its underlying comparative advantage in many AFF products, including staple crops, wood products, niche/organic products, and bovine livestock, but only if it can develop a better SPS system. Strengthening supply chains of crop products (initially corn, followed by rice) for growing regional markets (especially the PRC) is a government priority.

11. In short, numerous policies, action plans, legislative changes, guidelines, procedures, and standards have been promulgated and/or issued by GMS countries, and they are moving in the right direction. However, many gaps in capacities and in implementation remain in Cambodia and the Lao PDR.

C. Lessons from Trade Facilitation, Agriculture and Natural Resources Investments, and Sanitary and Phytosanitary Development

12. Trade facilitation remains challenging in the GMS. Previous experience demonstrates the need to formulate well targeted and sequenced projects to ensure that bilateral and regional commitments focused on cooperation and harmonization are implemented. Agriculture and natural resources sector experience also suggests it is essential to focus on measures that promote AFF trade in a subregional context. The governments of Cambodia and the Lao PDR have plans to address SPS issues, but inadequate capacities at country levels continue to act as barriers to effective regional SPS cooperation.

13. Ongoing projects by several development partners support various aspects of SPS in the GMS. However, to date, they have not addressed SPS issues in a systematic or comprehensive manner; assistance from development partners in SPS has typically been small-scale and fragmented.⁹ The lessons of international SPS experience highlight the need for prevention at the production level and controls throughout the AFF supply chain—giving emphasis to end-of-pipe controls (which have proven to be costly and ineffective). Involvement of the private sector and

⁸ World Bank. 2006. *Building Export Capacity in Laos*. Washington DC.

⁹ Notwithstanding that sound technical work, including surveillance and monitoring, has been initiated.

civil society in SPS capacity building is necessary to ensure the right technical issues and challenges are addressed, and for long-term sustainability.

14. To address these shortcomings, assistance for SPS capacity building needs to be delivered over a longer duration to provide recipient countries with the necessary time to develop their national risk-based surveillance programs gradually and systematically. In addition, long and porous national borders, and similarities in agro-ecological conditions and food systems, make the GMS countries highly interdependent. Because of the risks of spillovers, individual and national solutions to transboundary agricultural health and food safety hazards are difficult to achieve (and expensive to implement effectively) without strong cooperation from GMS neighbors. This reinforces the importance of SPS issues, and supports the rationale for a regional approach to project design and implementation.

D. ADB Assistance

15. Securing improvement in the current SPS situation for Cambodia and the Lao PDR will rely on the establishment of broad-based and cost-effective SPS systems. The Asian Development Bank (ADB) has proposed the regional SPS project for Cambodia and Lao PDR¹⁰ commencing in 2012, and has provided project preparatory technical assistance (TA) to help design these projects in consultation with key stakeholders in Cambodia and the Lao PDR.¹¹ The SPS project design is based on identified sector problems and lessons from previous interventions by development partners and ADB. In line with a thorough assessment and detailed discussions with the governments and stakeholders, and in coordination with development partners active in SPS capacity development, the proposed projects have been formulated to target strengthening of surveillance and inspection systems and upgrading of SPS human resources through the provision of a comprehensive mixture of (i) technical support, (ii) training, and (iii) equipment and laboratory hardware. The economic rationale for the project rests largely on the public goods nature of the goods and services to be provided; without public intervention, SPS capacities are unlikely to be adequately enhanced (continuing to impact negatively on opportunities for trade expansion and economic growth). It is further supported on a subregional economic goods basis, especially where weaker or weakest link technology is involved and where the poorer member countries (Cambodia and the Lao PDR) lack the capacity to meet relevant international and regional standards for health and trade.¹²

16. A particular feature of the technical design has been to focus responsibility for the components dealing with plant health, animal health, food safety, and academic education on individual institutions in each country. The major design parameters are as follows: (i) a recognition that plant, animal, and food safety surveillance systems start from a low informational and human capacity base, and that enhancing SPS capacity requires a pragmatic and practical approach; (ii) simple and cost-effective approaches should be employed wherever possible, e.g., the use of rapid test kits and the construction of shared laboratory facilities; and (iii) an emphasis on strengthened university programs as opposed to research. The project has been designed to complement ongoing and planned interventions, e.g., the World Bank's trade development facility in the Lao PDR supported by a multi-donor trust fund; ADB's SPS project

¹⁰ A parallel project for Viet Nam is under processing and when ready will be prepared under a separate Report and Recommendation of the President.

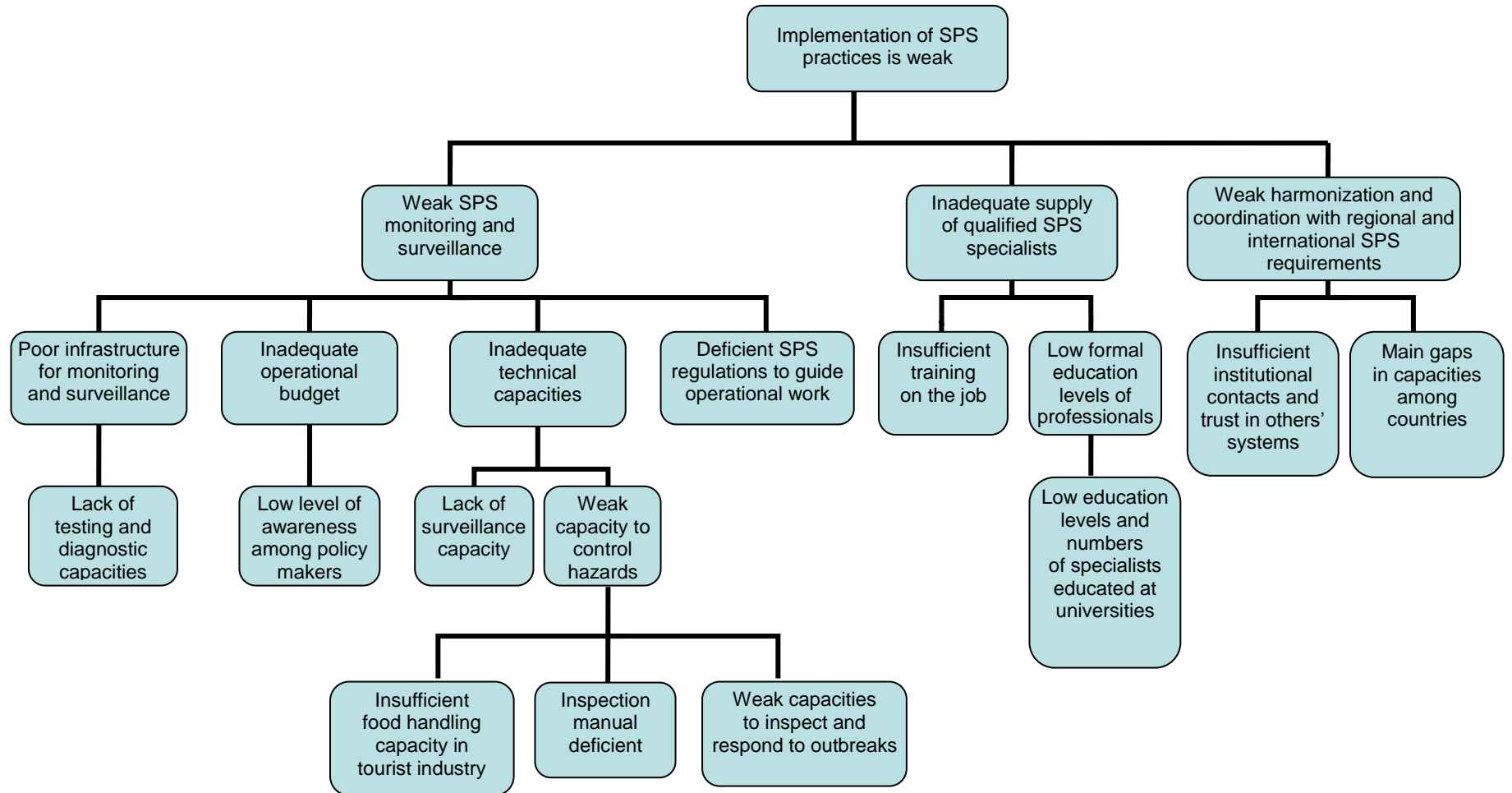
¹¹ ADB. 2010. Proposed Loans/Grant/R-CDTA/R-PPTA on Trade Facilitation: Improved SPS Handling in GMS Trade, and project preparatory TA. Manila.

¹² "Weaker or weakest link technology" means that SPS capacities in GMS countries are in part dependent on capacities in the weakest countries because of cross border spill-over effects.

under Promoting Economic Diversification in Cambodia;¹³ and initiatives supported by the Food and Agriculture Organization of the United Nations (FAO), the United Nations Industrial Development Organization (UNIDO), and bilateral development partners. Coordination with the GMS Working Group on Agriculture has been maintained. Subregional cooperation is promoted through SPS subregional fora, bilateral working groups, and academic exchanges.

¹³ ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grants to the Kingdom of Cambodia for Promoting Economic Diversification, Subprogram 2*. Manila.

Problem Tree: Industry and Trade (SPS Measures)



Sector Results Framework

Country Sector Outcomes		Country Sector Outputs		ADB Sector Operations	
Outcomes with ADB Contribution	Indicators with Targets and Baselines	Outputs with ADB Contribution	Indicators with Incremental Targets	Planned and Ongoing ADB Interventions	Main Outputs Expected from ADB Interventions
<p>Improved volume and value of Cambodia and Lao PDR AFF trade within GMS</p> <p>Improved health status of populations (including national and international tourists)</p> <p>Improved business environment</p> <p>Enhanced subregional cooperation</p>	<p>Increased formal trade in AFF products to GMS (annual value up 10%–15% from 2009 baselines: \$166 million for Cambodia, \$284 million for Lao PDR)</p> <p>Reduced incidence of food-borne diseases and related morbidity and mortality, and loss of productive time for consumers (2004 baseline: DALYs 1,442 for Cambodia, 2,843 for Lao PDR)</p> <p>Tourism arrivals increase (5%–10% annually from 2010; 2009 baselines 2 million for Cambodia, 2.16 million for Lao PDR)</p> <p>Lower SPS-related border transaction costs for traders (at least 20% from 2010 baselines)</p>	<p>The establishment of broad-based, enhanced, and cost-effective SPS systems incorporating (i) the application of surveillance and risk analysis and risk management practices for SPS procedures; (ii) stronger diagnostic and testing facilities supporting pest and disease identification, market surveillance, inspection, and risk analysis; (iii) improved import handling; (iv) controlled use of pesticides and veterinary drugs (protecting human and animal health and supporting market access); (v) control of animal feed, seed, and propagation material; and (vi) improved food safety in the tourist industry</p>	<p>By 2017</p> <p>Three crop or product-specific market access agreements based on new pest/disease information (2010 baseline: none)</p> <p>Effectiveness of animal disease outbreak response improved</p> <p>Effectiveness of food hazard response improved</p>	<p>Planned key activity areas for Trade Facilitation: Improved SPS Handling in GMS Trade (R-PPTA 2011/2012). Ensuing project: Cambodia and Lao PDR (\$25 million in 2012)</p> <ol style="list-style-type: none"> 1. Surveillance and inspection programs (i) Plant health program (ii) Animal health program (iii) Food safety program 2. GMS and ASEAN regional cooperation 3. Upgrade academic education for SPS specialists <p>Pipeline project with estimated amounts Modernization of Trade Facilitation Agencies (R-PPTA 2014). Ensuing project: Cambodia, Lao PDR, Viet Nam (\$65 million in 2015)</p>	<p>Strengthened surveillance and inspection programs designed and implemented (for plant health, animal health and food safety)</p> <p>Improved regional cooperation and harmonization</p> <p>Enhanced education levels and university training of SPS specialists</p> <p>Project management</p>

ADB = Asian Development Bank, AFF = agriculture, food and forestry, ASEAN = Association of Southeast Asia, DALY = disability adjusted lifeyear, GMS = Greater Mekong Subregion, Lao PDR = Lao People's Democratic Republic, R –PPTA = regional project preparatory technical assistance

Source: Asian Development Bank.